

## REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES

<b>GMP Reconciliation</b>  <b>Pensions Committee</b> <b>20<sup>th</sup> March 2019</b>	<b>Classification</b> <b>PUBLIC</b>	<b>Enclosures</b>  <b>Four (Exempt)</b>
	<b>Ward(s) affected</b>  <b>ALL</b>	

### 1. INTRODUCTION

- 1.1 This report provides the Pensions Committee with an update on the Fund's GMP reconciliation (Guaranteed Minimum Pensions) exercise, which is being undertaken to ensure that scheme member records for periods spent contracted out of the second state pension are properly accounted for. The report provides an update on the progress of Phase 2 of the reconciliation exercise and outlines factors for considering and agreeing an increase in the budget to complete Phase 2, and to consider the proposal and budget for beginning the next phase of the project, Phase 3a – Certification & Rectification (Initiation stage).

### 2. RECOMMENDATIONS

#### 2.1 The Pensions Committee is recommended to:

- **Approve additional budget of £56k to complete the outstanding Phase 2 work required on the remaining pensioner and deferred members and active members with pre-1997 service**
- **Approve an initial budget of £60k to allow Phase 3 to commence**

### 3. RELATED DECISIONS

- Pension Committee 21<sup>st</sup> March 2018 – GMP reconciliation exercise
- Pension Committee 29<sup>th</sup> March 2017 – GMP reconciliation exercise
- Pension Board 20<sup>th</sup> March 2017 – GMP Reconciliations
- Pension Board 26<sup>th</sup> January 2016 – GMP Reconciliations – Update and Training

### 4.1 COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

- 4.1 This report sets out for the Pensions Committee the issues faced by the Fund as it tries to reconcile historical data for its scheme members for periods during which they were contracted out of the second state pension.
- 4.2 Whilst the cost of undertaking a GMP reconciliation exercise is significant, failure to undertake this work would result in the Fund being made responsible for the payment of any GMP liability that HMRC deems to be associated with it. Indications are that the differences between the Fund's administration data and HMRCs records are

considerable, exposing the Fund to significant risk if no reconciliation exercise is undertaken.

- 4.3 The Pensions Committee is requested to approve spend of approximately £115k, of which £56k is over and above the initial budget for this exercise. The additional spend is necessary to ensure completion of Phase 2 of the project.

## **5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE**

- 5.1 The reconciliation of GMP values is not a mandatory requirement under the Local Government Pension Scheme Regulations 2013. However, conducting a reconciliation exercise can help to reduce the risks to the Fund associated with unreconciled GMP liabilities, such as breaches of the Pensions Regulator's (TPR) code of practice regarding record keeping
- 5.2 Paragraph 7 of Pensions Committee's Terms of Reference state that it is responsible for monitoring liabilities and undertaking any asset/liability and other relevant studies as required. The Committee is also responsible for monitoring the Pension Fund Budget.
- 5.3 As GMP reconciliation helps to properly measure and control the Fund's liabilities, consideration of such an exercise and its associated costs would appear to fall within the remit of Pensions Committee

## **6. GMP RECONCILIATION - BACKGROUND**

- 6.1 From 6<sup>th</sup> April 2016 the government introduced the new State Pension (nSP). This was designed to radically simplify pension provision, removing layers of complexity whilst ensuring security in retirement. Amongst the provisions removed was the Additional State Pension (AP), an earnings-related element of the old system. Members of defined benefit occupational schemes such as the LGPS were able to 'contract out' of this element, permitting both employee and employer to pay lower National Insurance contributions as a result. In exchange, schemes guaranteed to provide members with a pension at least as high as they would have received had they not been contracted out. This guaranteed amount is the GMP; it applies to all those who were contracted out between 6 April 1978 and 5 April 1997.
- 6.2 HMRC offered a service whereby schemes can check their GMP records against those held by HMRC and resolve any differences. However, HMRC withdrew the Scheme Reconciliation Service (SRS) at the end of October 2018 and no further support is offered for GMP queries. Schemes already undertaking a GMP reconciliation when the support service was withdrawn can continue to have their GMP queries rectified. Where schemes have not undertaken a reconciliation of their contracted out liabilities, HMRC takes the stance that its own calculations are final; schemes will become responsible for any GMP liabilities which HMRC believe they hold
- 6.3 The reconciliation of GMP values is not a mandatory regulatory requirement; however the Fund faces significant risks if its GMP liabilities are not reconciled. These include:
- Incorrect calculation of GMPs by HMRC, potentially increasing the fund's overall liabilities

- Assumed liability for GMPs if HMRC holds records for a fund that are not the fund's responsibility
- Unexpected increase in liabilities if the Fund does not hold records of all the liabilities it is responsible for
- Breach of The Pensions Regulator's (TPR) code of practice regarding record keeping
- Over and underpayment of pension benefits to individual scheme members
- Queries following HMRC notifications to scheme members in 2018
- Reputational issues

6.4 Officers have been working with the pension administrators, Equiniti, on a phased reconciliation project. The project is being undertaken by a specialist team within Equiniti's discontinuance department, and is separate from the main administration service provided to the Fund. It is run on a phased basis, with the scope and estimate costings being agreed for each phase prior to approval.

## **7. PHASE 2 UPDATE**

7.1 Phase 1 of the project was completed during 2016/17 within the agreed budget of £28,000. This phase involved requesting and receiving data from both HMRC and the Fund's administrator, and identifying sets of defined queries, which were then submitted to HMRC for analysis.

7.2 The initial project proposal and budget of £208k for Phase 2 was agreed by Pensions Committee in March 2017. Following this initial approval, Equiniti conducted an analysis on the 'Gap' members (i.e. members whose status changed between the date of the initial data run of April 2016 and April 2017), which identified a further 353 pensioners and 1,049 deferred members to be brought into scope.

7.3 It was also agreed to analyse the Funds active membership of 7,531 (as at April 2017) to identify any records to be brought into scope. This significantly increased the number of records requiring rectification, putting strain on the budget for Phase 2. The Fund therefore took a pragmatic approach and agreed that only those active members with pre-97 service, and therefore a GMP element attached to their future benefits, would be brought into scope, significantly limiting the increase in cost.

7.4 In March 2018, following discussions on the Funds approach to the active membership, the Pension Committee agreed an increased budget for Phase 2, on the proviso that the increase in budget be spent to complete the pensioner/dependants and deferred records, and to only investigate the pre-97 actives.

7.5 As at the end of February 2019, the Funds records are 92% reconciled, leaving 2160 cases still outstanding. A high level breakdown of all outstanding queries is provided at Appendix 3, with a detailed data snapshot (provided by Equiniti) at Appendix 4. HMRC are still investigating these records; however, response times have slowed due to increased volumes of work received prior to closure of reconciliation service. These cases may not be responded to until May 2019, after which Equiniti will need to undertake further validations

7.7 The spend on Phase 2 of the project as at the end of February 2019 is £339k, meaning the revised budget for Phase 2 of £343k is almost exhausted. The Pensions

Committee is requested to approve a further increase in budget to allow the phase to be completed. Until responses are received from HMRC, neither the validation method to be used nor the exact cost can be determined. Equiniti have therefore set out an upper cost limit by assuming that each case will be worked individually with no reductions from bulk processing.

- 7.8 It is therefore proposed that the Pensions Committee approves an increase in budget of approximately £56k, reflecting the outstanding Phase 2 work required on the remaining pensioner and deferred members and active members with pre-1997 service. Further details can be found at Appendix 1 (Page 7, Option 1). Officers will continue to receive a monthly report from Equiniti detailing progress made and costs incurred. Savings from any bulk analysis used to complete Phase 2 can be utilised to begin Phase 3.

## 8. PHASE 3 PROPOSAL

- 8.1 Phase 3 of the project is the Certification and Rectification of the Fund's administration data and benefits. Given the number of cases currently requiring rectification (2279), the Pensions Committee is asked to approve commencement of Phase 3, which is split into the following sub-phases:

- **Phase 3a – Initiation**

Comparison of pension & GMP values, provides high level view of cases that can be rectified using an agreed automated method, or are more complex and need to be rectified manually

- **Phase 3b – Certification**

Indicator added to member records confirming a reconciliation has been undertaken – several cycles of this will need to be done as records are agreed/matched/cleared

- **Phase 3c – Pilot Phase**

Enhanced comparison of complex data from Phase 3a – to reduce number of cases needing manual rectification

- **Phase 3d – Rectification casework**

Physical amendments to the admin system and necessary corrections to benefits in payment

- 8.2 Until sub-phases 3a -c are complete, it will not be possible to provide a detailed timescale and budget estimate for the rectification work required in 3d. The Pensions Committee is therefore asked to approve an initial budget of £60k to allow work to commence on the following tasks:.

- 1) To allow initiation to begin for pensioner and dependant members
- 2) To peer review the cases on the administration change log (ACL), that have already been identified during Phase 2
- 3) To undertake the 'Data rectification' for deferred members where the 'Re-tranche only' calculation method applies
- 4) To undertake 'Data rectification' for active members (pre-97's only)
- 5) To commence 'Certification' of records on the Administration system.

A breakdown of the proposed budget is provided at Appendix 3 (section 2). As Phase 3 progresses, and decisions and policies are required, officers will bring the reports and recommendations to the Committee and Board as necessary.

Ian Williams  
**Group Director, Corporate Finance and Resources**

Report Originating Officers: Julie Stacey ☎020-8356 3565

Financial considerations: Michael Honeysett ☎020-8356 3332

Comments of the Director of Legal and Governance: Patrick Rodger, Senior Lawyer, Legal Services ☎020-8356 6187

## **Appendices**

Appendix 1 – EXEMPT - Phase 2 Completion Proposal

Appendix 2 – EXEMPT - Phase 3 Initiation Proposal

Appendix 3 – EXEMPT - Phase 2 outstanding queries & Phase 3 budget proposal  
breakdown

Appendix 4 – EXEMPT - Data Snapshot